

STRATEGY DEVELOPMENT OF PT. XYZ A STARTUP TECHNOLOGY COMPANY

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Abstract— PT. XYZ (XYZ) is an Indonesian startup technology company which provides IT Consulting and System Integration services. In this research, XYZ's strategy for the next three years (until 2015) will be crafted by going through the strategic management process which consists of the following stages: (1) environment analysis of XYZ, (2) setting strategic vision, (3) setting objective, (4) crafting strategy and (5) executing the strategy. Based on the result of the environment analysis, XYZ's vision, its objective and its strategy are determined and discussed. In a nut shell, XYZ's strategy is to "reach IDR 50 Billion revenues in 2015 with 15-20% net margin by offering innovative technology solutions to support customer's operations and supply management through prestigious projects which deliver superior requirement analysis, high value and reliable support." This strategy is supported by a well thought diamond model strategy elaboration and its corresponding activity system map, value chain and business model. This research also provides implementation plan for XYZ as the basis for executing the strategy.

Keywords: company strategy, strategic management, startup technology company

I. INTRODUCTION

XYZ is a startup technology company founded in 2010 which is determined to become a world class company. It is an IT service company that provides technology solutions. Its services include consulting and system integration services. In engineering, system integration is the bringing together of the component subsystems into one system and ensuring that the subsystems function together as a system. In information technology, systems integration is the process of linking together different computing systems and software applications physically or functionally, to act as a coordinated whole.

After it has successfully completed two RFID solution projects, it is now time to make decision about where to go in the future. Questions such as which market to target, which product and services to offer, which industries to participate in, which core competence to focus on, what kind of resources to develop, what vehicles to achieve its objectives, how is its roadmap, how it can make money, how it differentiate itself with competitors, and so on still remain open.

To be able to answer those questions and become a company with sustainable competitive advantage and above average returns, XYZ needs a strategy. By strategy it means a central, integrated, externally oriented concept of how the business will achieve its objectives. Without a strategy, time and resources are easily wasted on piecemeal, disparate activities; mid-level managers will fill the void with their own, often parochial interpretations of what the business should be doing; and the result will be a potpourri of disjointed, feeble initiatives. (Hambrick & Fredrickson, 2001).

II. BUSINESS ISSUES EXPLORATION

The managerial process of crafting and executing a company's strategy consists of six integrated stages as depicted in **Error! Reference source not found..**

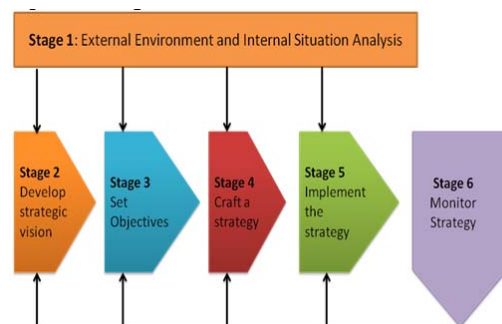


Figure 1 : Strategic Management Process (Gamble & Thompson Jr, 2011)

XYZ's strategy will be developed by going through the stages in the strategic management process, using the existing theoretical concepts and tools in the process.

A. Conceptual Framework

Based on the strategic management process, the research will be organized using the conceptual framework depicted in Figure 1.

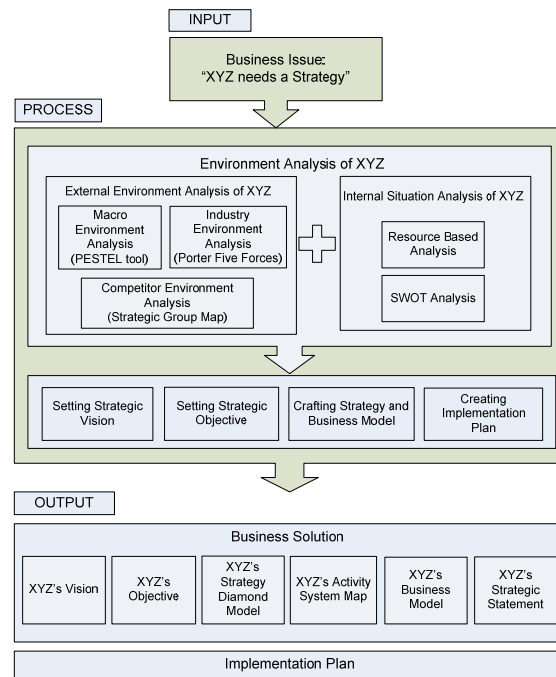


Figure 1 : Conceptual Framework of the Research

The input of the research will be the business issue, which is “XYZ needs a Strategy”.

In the process phase, analysis of the business situation will be performed, which include external environment analysis of XYZ and internal situation analysis of XYZ.

The external environment analysis consists of:

- The macro environment analysis, where the macro environment conditions that have impacts to the company are being analysed based on the PESTEL dimensions (Political, Economical, Socio-cultural, Technological and Legal) (Hamsal, 2010)
- The industry environment analysis, where industry environment competitiveness is being analyzed using the five-forces model of competition (Porter, The Five Competitive Forces That Shape Strategy, 2008)
- The competitor environment analysis, where the company’s competitors are being mapped using the Strategic Group Map analysis. (Fiegenbaum & Thomas, 1995)

The internal situation analysis consists of:

- The resource based analysis (Barney, 1991), where company’s resources and capabilities that are competitive advantages are being identified.
- The SWOT analysis, where the company’s Strength, Weakness, Opportunities and Threats are being identified.

After analyzing the business situation, the process continues to perform the following activities:

- Setting Strategic Vision for XYZ (Gamble & Thompson Jr, 2011)
- Setting Strategic Objective for XYZ (Gamble & Thompson Jr, 2011)

- Crafting a Strategy and Business Model for XYZ, using the Strategy Diamond Model (Hambrick & Fredrickson, 2001), Activity System Map (Porter, What is Strategy?, 1996), Business Model Elements (Johnson, Christensen, & Kagermann, 2008) and Strategic Statement (Collis & Rukstad, 2008)
- Creating Implementation Plan for XYZ which is based on theoretical background on executing a strategy discussed in (Gamble & Thompson Jr, 2011).

The output of this research will be the business solution which includes the following: XYZ’s strategic vision, XYZ’s strategic objective, XYZ’s strategy diamond model, XYZ’s activity system map, XYZ’s business model elements and XYZ’s strategic statement.

Another output of this research is the implementation plan for XYZ as a base for executing the strategy.

B. Method of Data Collection and Analysis

The methods of data collection used in this research include interviews, observation, written materials and case studies.

Interviews will be done with individuals who are responsible in running and monitoring XYZ’s management. These primary sources include management executives and advisory board of XYZ. Unstructured interviews with the identified primary sources will be performed.

Observations are also used to learn from experiences and behavior of XYZ’s performance, customers, suppliers, competitors and human resources.

Literature survey is done extensively for finding the suitable theoretical backgrounds, gaining information on the macro environment, industry environment, and competitor environment.

Case study can be used to learn best practices and success stories from the best in the industry. In this research, XYZ is learning from the success stories of Tata Consultancy Services (the biggest IT service company in India), IBM Global Services and Accenture.

C. Analysis of Business Situation

1. Macro Environment Analysis of XYZ

The following is the result of the macro environment analysis based on the PESTEL dimensions.

In the political dimension, it can be observed that the government’s increasing awareness in standardization and local technology products and services will create ample opportunities for technology solution providers.

In the economical dimension, it can be observed that the promising economic growth of Indonesia will create ample opportunities for technology solution providers.

In the socio-cultural dimension, it can be observed that transformation of culture in Indonesian society to become more appreciative of quality, standards and

efficiencies, will create a conducive environment for technology solution providers in offering and implementing their solution.

In the technological dimension, it can be observed that smart systems and internet of things are going to be a big trend, in which, LD is one of the pioneers to implement these technologies.

In the legal dimension, it can be observed that devices certification and intellectual properties are quite a challenge in Indonesia, but it can be done.

From the five dimensions analysis, we can derive a conclusion that there will be ample opportunities for technology solution provider in Indonesia.

2. Industry Environment Analysis of XYZ

According to (Porter, The Five Competitive Forces That Shape Strategy, 2008), the attractiveness of an industry depends on the strength of the five competitive forces that influences the industry.

These five competitive forces model will be used to analyze the attractiveness of the IT Service industry in Indonesia.

In this industry, the competitive force coming from new entrants is basically weak. Based on XYZ's experience as a new entrant in this industry, it can be concluded that entering this industry is not easy. First finding and maintaining human resources who are capable in system integration is not easy. Second, developing mature internal process which is required for ensuring the quality of the deliverables takes time. Third, good track records and brand are required to gain market in this industry.

The second competitive force comes from the supplier position. Electronics Components Suppliers normally have to fulfill a certain manufacturing quota to meet its economies of scale; therefore they are very aggressive in offering their products to the IT service companies. This makes their bargaining position weak.

The third competitive force comes from the buyer's position. The market for IT service industry in Indonesia is growing fast; therefore the industry players will have the luxury to choose the buyers that suits their strategy.

The fourth competitive force comes from substitute products. The only substitute product exists for technology solution would be the manual system. Because of the increasing awareness of efficiencies and standardization, manual system will have a weak competitive force toward technology solution, since manual system requires heavy work force and provide less reliability.

The last competitive force comes from the existing competitors. Due to the fast growing market of the industry, and the fact that each player has their own market segments, competitive force from the competitors are generally moderate.

Based on the fact that competitive forces from all five directions are generally weak, we can derive the conclusion that the IT service industry is an attractive industry.

3. Competitor Environment Analysis of XYZ

Figure 2 shows the strategic group map of competitors in the Indonesian IT Service Industry.

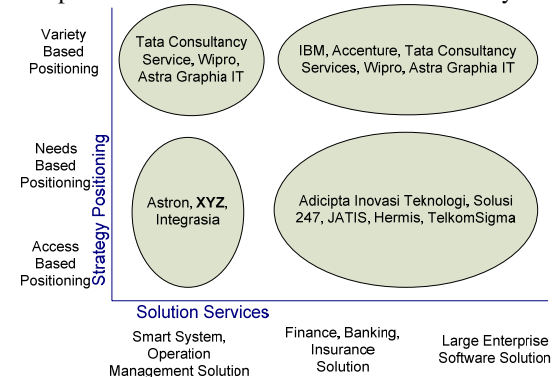


Figure 2 : Strategic Group Map in IT Service Industry in Indonesia

As we can see from

Figure 2, most IT service companies in Indonesia are providing finance or large enterprise solutions. The world class IT service companies, such as IBM, Tata and Accenture mostly provide a wide variety of products and services. Tata for example, they provide mostly finance and banking solution, but they also provide large enterprise solution and a few operation management solutions. The core competency of Accenture is providing large enterprise solution, but they also provide finance and banking solution. These companies are using the variety-based strategic positioning because of the wide variety of products and services that they provide.

Most local IT service companies are also providing finance or large enterprise solution. They normally propose solution for a certain market segment, for example telecommunication, banking or others. These companies are using the needs-based strategic positioning and access-based positioning. Needs-based positioning because normally they try to fulfill the needs of their existing clients. They use access-based positioning in order to make themselves available to prospective customers through tender processes or strategic partnerships with other companies which have access to the customers.

XYZ positions itself in providing solution for operation and supply management, specifically using smart system technology, because there are many companies facing problem in efficiencies and there are still little players providing this kind of solutions. XYZ's close competitors include Astron and Integrasia.

These three companies are also using needs based positioning because they are trying to fulfill the needs of their existing clients, while they use the access-based positioning in order to make themselves available to prospective customers through tender processes, strategic partnerships with other companies which have access to the customers or marketing intelligence to find access to the customer.

Despite being competitors, these companies can also cooperate with each other in order to execute a project.

4. Internal Situation Analysis of XYZ

Figure 3 shows SWOT analysis of XYZ in a Nutshell. The competitive advantage resources and capabilities which are being identified in the Resource-Based Analysis become the Strengths of the company.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Core Competency in System Integration Access to World Class Local Experts Hard Working Culture and Non Bureaucratic Organization Competencies in Business Strategy and Administration Wide Relation Networking Competencies in Business Financing Family Owned Corporation 	<ul style="list-style-type: none"> Limited Financial Budget Missing Electronic Modeling Division Lack of Middle Management Personnel Improving Process Maturity Improving Knowledge Management
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Utilizing existing RFID Systems for different applications Expanding the market through Internet and media marketing Partnering with different technology companies to expand product lines Providing system integration services to large infrastructure projects Pursuing R&D projects to develop new products Utilizing knowledge in Smart Card technologies to pursue smart card projects 	<ul style="list-style-type: none"> Submitting to a project too complex to do Marketing unit cannot penetrate user in prospective projects Unable to form a new solid partnership in a prospective projects Finding a project where the deliverables are uncertain or highly prone to changes Waiting for a tender which is uncertain or always postponed Unable to compete technical specification and the deliverables of a project

Figure 3 : SWOT Analysis of XYZ

5. Strategic Sweet Spot of XYZ

The strategic sweet spot of a company is where it meets customers' needs in a way that rival can't, given the context in which it competes.

The analysis of business situation suggests that XYZ should stay in the business of providing technology solution, specifically in the IT services industry, taking advantage of its core competency in system integration to provide smart systems technology solution to operations and supply management problems using access-based positioning strategy. This would be the strategic sweet spot for XYZ

Based on the analyzed external environment and internal situation of XYZ, and the identified strategic sweet spot, XYZ now needs to identify its vision, objective and strategy which will guide XYZ to achieve sustainable competitive advantage and above average returns.

III. BUSINESS SOLUTION

After going through the stage 1 of the strategic management process (see **Error! Reference source not found.**) which is analyzing the external environment and internal situation of XYZ, and identifying the strategic sweet spot for XYZ, it is time to move on to the next stages of the strategic management process in order to achieve a winning strategy for XYZ.

A. XYZ's Strategic Vision

"To become a world class IT system integrator who empowers companies in their operations and supply management with innovative technology solutions"

B. XYZ's Strategic Objective

XYZ will focus first in maximizing profit for the company by gaining market share of profitable customers and sets its objective to reach IDR 50 Billion in revenues by 2015 with 15-20% net margin.

C. XYZ's Strategy Diamond

After determining its objective, a company must have a strategy, an integrated, overarching concept of how the business will achieve its objective.

On the following, strategy for XYZ is described by identifying each elements of the strategy: (1) Arena in which LD will compete in; (2) Vehicle used to compete in the arena; (3) Differentiator or how we will win in the arena; (4) Staging or the stages that are involved in achieving our objective; (5) Economic logic, or how the business makes money.

shows XYZ's strategy in a nutshell. This strategy is crafted to meet the strategic objective of XYZ, which is to reach IDR 50 Billion in revenues by 2015 with 15-20% net margin. Therefore, the strategy is a short term strategy with 3 years of time span.

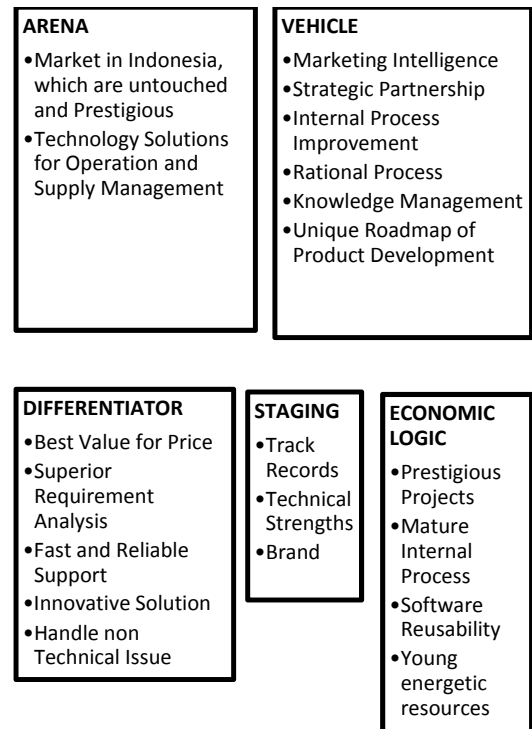


Figure 4 : XYZ's Strategy

D. XYZ's Activity System Map

According to (Porter, What is Strategy?, 1996), strategy is creating fit among a company's activities. The success of a strategy depends on doing many things well – not just a few – and integrating among them. If there is no fit among activities, there is no distinctive strategy and little sustainability. Activity-

system maps can be useful for examining and strengthening strategic fit.

According to (Hambrick & Fredrickson, 2001), the five elements of the strategy diamond can be considered the hub or central nodes for designing a comprehensive, integrated activity system (Porter, What is Strategy?, 1996).

Figure 5 shows the mapping of XYZ's activity system based on the five elements of XYZ's strategy.

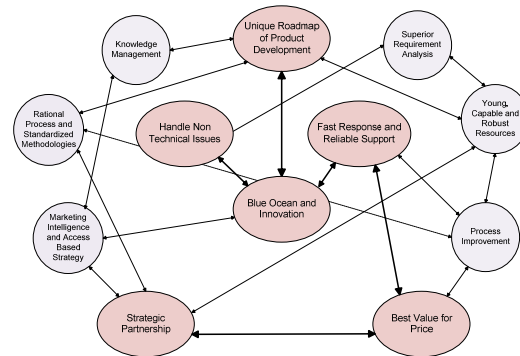


Figure 5 : Activity System Map for XYZ

E. XYZ's Business Model

As discussed in (Johnson, Christensen, & Kagermann, 2008), the three elements of a company's business model are:

- Its **customer value proposition** (its approach to satisfying buyer wants and needs at a price customers will consider a good value),
- The **profit formula** (determining a cost structure that will allow for acceptable profits given the pricing tied to its customer value proposition), and
- Identification of the **key resources and processes** that is necessary to create and deliver value to customers.

Figure 6 shows the business model elements of XYZ.

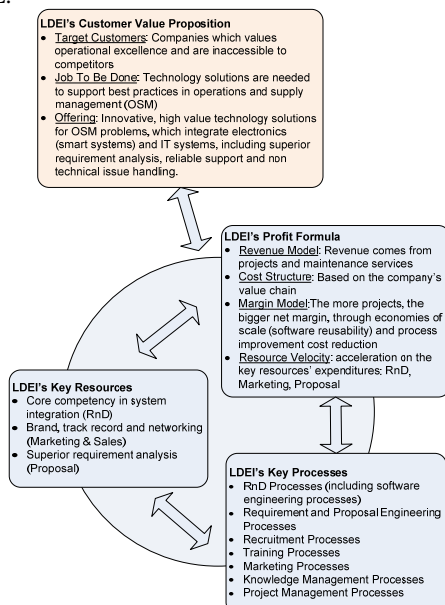


Figure 6 : Elements of Successful Business Model (Johnson, Christensen, & Kagermann, 2008)

F. XYZ's Strategic Statement

XYZ aims to "reach IDR 50 Billion revenues in 2015 with 15-20% net margin by offering innovative technology solutions to support customer's operations and supply management through prestigious projects which deliver superior requirement analysis, high value and reliable support."

IV. CONCLUSION AND IMPLEMENTATION PLAN

A. Conclusion

XYZ is a company that provides integration of electronics and IT system services to organization that required technology solutions to their operation problems. XYZ was founded in 2010 and has achieved 3.5 Billion rupiah of revenue in 2011 from a government project, which is a pilot project for the implementation of RFID System for subsidized fuel control. After completing the pilot project successfully, XYZ is yet to decide its strategy for the next years to come. In this research, a strategy for XYZ for the next 3 years is crafted through a strategic management process which includes the following stages: (1) environment analysis of XYZ, (2) setting its strategic vision and mission, (3) setting its objective, (4) crafting strategy, (5) executing the strategy and (6) evaluating the strategy.

After performing stage 1 to stage 4 of the strategic management process based on a well referenced conceptual framework, XYZ has crafted a strategy which can be stated in the following strategic statement: XYZ aims to "reach IDR 50 Billion revenues in 2015 with 15-20% net margin by offering innovative technology solutions to support customer's operations and supply management through prestigious projects which deliver superior requirement analysis, high value and reliable support."

This strategy is supported by a well thought diamond model strategy elaboration and its corresponding activity system map, value chain analysis and business model. This research also provides implementation plan for XYZ as the basis for performing stage 5 of the strategic management process

B. Implementation Plan

The following are key implementation plans which are important for realizing XYZ's strategy:

- Emphasis on Marketing and Proposal
- Rational Process in Marketing and Partnership
- Emphasis on RnD
- High Level Internal Process Maturity (CMMI)
- Modular Software Engineering

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